

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Ojibwe Charter School	County Chippewa
Audit Date 6/30/05	Opinion Date 8/11/05	Date Accountant Report Submitted to State: 10/7/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 16978 S. Riley Avenue	City Kincheloe	State MI	ZIP 49788
Accountant Signature <i>Anderson Tackman & Co PLC</i>		Date 10/7/05	

Ojibwe Charter School

Financial Report with Supplemental Information

June 30, 2005

Contents

Independent Auditor’s Report	1 – 2
Administration’s Discussion and Analysis	3 - 9
Basic Financial Statements	
School – wide Financial Statements	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements	
Balance Sheet – Governmental Funds	12
Statement of Revenue, Expenditures, and Changes in Fund Balance – Governmental Funds	13
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Notes to Financial Statements	15 – 25
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	26
Reports on Compliance	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	27 – 28
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	29 – 30
Schedule of Expenditures of Federal Awards	31
Notes to Schedule of Expenditures of Federal Awards	32
Summary Schedule of Findings	33 – 34
Summary Schedule of Prior Audit Findings	35



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

**MEMBER AICPA
DIVISION FOR CPA FIRMS**

MEMBER MACPA

**OFFICES IN
MICHIGAN & WISCONSIN**

Independent Auditor's Report

To the Members of the
Board of Education
Ojibwe Charter School

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Ojibwe Charter School as of and for the year ended June 30, 2005, which collectively comprise the Ojibwe Charter School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Ojibwe Charter School's management. Our responsibility is to express an opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Michigan School Auditing Manual. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of the Ojibwe Charter School as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Board of Education
Ojibwe Charter School

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2005, on our consideration of Ojibwe Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The Administration's Discussion and Analysis and the required budgetary comparison information identified in the Table of Contents are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ojibwe Charter School's basic financial statement purposes. The accompanying information identified in the Table of Contents, and other supplemental information are presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to basic financial statements.



**ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS**

August 11, 2005

Administration's Discussion and Analysis

Ojibwe Charter School is a K-9 Public School Academy located in Chippewa County, Michigan. This Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Ojibwe Charter School administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

U.S. generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: School-wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

For the most part, the fund financial statements are comparable to general-purpose financial statements. The primary difference is that the Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported. The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the School's major instruction and instructional support activities are reported in the General Fund. Additional governmental activities are reported in their relevant Special Revenue Funds.

In the fund financial statement, capital assets purchased are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

School-wide Financial Statements:

The school-wide financial statements are maintained using the "full accrual" basis. They report all of the School's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the School are reported in the Statement of Net Assets of the school-wide financial statements.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**Summary of Net Assets:**

The following summarizes the net assets at fiscal year ended June 30, 2004 and 2005:

Net Assets Summary

	2004	2005
Assets		
Current assets	\$ 175,104	\$ 470,897
Capital assets	178,535	286,537
Less: accumulated depreciation	(12,186)	(44,399)
Capital assets, net book value	166,349	242,138
Total assets	\$ 341,453	\$ 713,035
Liabilities		
Current liabilities	\$ 205,380	\$ 261,129
Long-term liabilities	340,808	170,000
Total liabilities	\$ 546,188	\$ 431,129
Net assets		
Invested in capital assets, net of related debt (deficit)	\$ 44,929	\$ 242,138
Unrestricted	(249,664)	39,768
Total net assets	\$ (204,735)	\$ 281,906

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

During fiscal year ended June 30, 2005, the School's net assets increased by \$486,641 as compared to a net decrease of \$204,735 in the prior fiscal year. A few of the significant factors affecting net assets during the year are discussed below:

General Fund Operations

The School's revenues and other sources from General Fund operations exceeded expenditures by \$486,641 for the fiscal year ended June 30, 2005. A significant additional revenue source was added to the School's available resources with the award of federal Impact Aid under Title VIII of the Elementary and Secondary Education Act. This has allowed the School to not only fully fund the basic services it provided in the previous fiscal year, but also expand the level of services to enhance the educational environment that will continue to positively impact the future of the youth in the Chippewa County.

A. Results of Operations:

For the fiscal year ended June 30, 2004 and 2005, the School wide results of operations were:

	2004		2005	
	Amount	% of Total	Amount	% of Total
General revenue:				
State of Michigan aid - all sources	\$ 525,111	70.35%	\$ 848,117	45.03%
Federal Impact aid	-	0.00%	647,019	34.35%
Other	-	0.00%	3,260	0.17%
Total general revenue	525,111	70.35%	1,498,396	79.56%
Program revenue:				
Charges for services	10,369	1.39%	14,428	0.77%
Operating and capital grants- federal and state	210,896	22.03%	370,526	19.67%
Total program revenue	221,265	23.42%	384,954	20.44%
Total revenue	746,376	93.77%	1,883,350	100.00%
Expenses:				
Instruction and instructional services	536,101	56.37%	708,275	50.71%
Support services	369,651	38.87%	566,030	40.53%
Food service	31,207	3.28%	79,098	5.66%
Interest on long-term debt	1,966	0.21%	11,093	0.79%
Depreciation (unallocated)	12,186	1.28%	32,213	2.31%
Total expenses	951,111	100.00%	1,396,709	100.00%
Increase (decrease) in net assets	<u>\$ (204,735)</u>		<u>\$ 486,641</u>	

B. State of Michigan Aid, Unrestricted

The State of Michigan aid, unrestricted is determined by the following variables:

- **Per Student, Foundation Allowance:** Annually, the State of Michigan sets the per student foundation allowance. The Ojibwe Charter School foundation allowance was \$6,700 per student for the 2004 - 2005 school year.
- **Student Enrollment:** The School's student enrollment for the fall count of 2004 - 2005 was 122 students. To calculate total state aid to be provided by the foundation allowance during the first two years of operations, the State uses a formula that uses a blended enrollment of 50% of the current year fall count and 50% of the current year winter count. For subsequent years, a blend of 75% of current year fall count and 25% of the previous year winter count multiplied by the School's foundation allowance.

Subsequent to year end June 30, 2005, preliminary student enrollments for 2005 - 2006 indicate that the 2005 fall student enrollment will be fairly consistent with 2004 - 2005 levels.

C. General Fund Budgetary Highlights**Final Budget vs. Actual**

<u>Fiscal Year</u>	<u>Final Budget</u>	<u>Final Actual</u>
Revenues		
2003-2004	\$ 724,448	\$ 716,932
2004-2005	\$ 1,891,379	\$ 1,832,158
2005-2006 (projected)	\$ 1,574,661	
Expenditures		
2003-2004	\$ 1,051,438	\$ 1,093,752
2004-2005	\$ 1,581,209	\$ 1,502,929
2005-2006 (projected)	\$ 1,718,508	

Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Ojibwe Charter School amends its budget periodically as needed during the school year. For the fiscal year 2004 - 2005, the budget was amended in April 2005. The April 2005 budget amendment was the final budget for the fiscal year. The Ojibwe Charter School Board does not budget for expenditures covered by grants or for the grant revenue until an award is received. The General Fund does not budget for capital outlays in the original budget.

Change from Original to Final General Fund Budget**Revenues:**

Total Revenues Original Budget	\$ 1,400,824
Total Revenues Final Budget	<u>1,891,379</u>
Increase in Budgeted Revenues	<u>\$ 490,555</u>

The School's final general fund revenues were less than the final budget by \$ 59,221 a variance of 3.1%. This variance was primarily a result of unspent federal grant allocations awarded to the school. Those allocations are available through September 30 and it is anticipated that these unspent allocations at June 30 will be used before the end of the grant period.

The following are the significant changes in revenues from the original budget:

- Original budget had estimated an enrollment of 130 students and fall 2004 actual enrollment was 122.
- Allocation of federal Impact Aid awards were included in the April budget revision.

Expenditures:

The School's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 1,393,230
Total Expenditures Final Budget	<u>1,621,209</u>
Decrease in Budgeted Expenditures	<u>\$ 227,979</u>

The School's actual expenditures were less than final budget by \$ 78,280 a variance of 5.0%. This variance was primarily a result under-spending federal grant allocations described above under the explanation of the revenue variance, less than anticipated facility maintenance costs, and savings from the window of time that the school was without a Chief Administrative Officer while replacement candidates were found and interviewed.

The following are the significant changes in expenditures from the original budget:

- Adjustment in staffing to recognize the programmatic additions that were made possible as a result of the federal Impact Aid allocation.
- Additional fees for management services as a result of allocation of federal Impact Aid.

CAPITAL ASSETS AND DEBT ADMINISTRATION**A. Capital Assets**

The School's net investment in capital assets increased by \$75,789 during the fiscal year. This can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Non-depreciable capital assets	\$ -	\$ -	\$ -	\$ -
Depreciable capital assets	178,535	108,002	-	286,537
Less: accumulated depreciation	<u>(12,186)</u>	<u>(32,213)</u>	<u>-</u>	<u>(44,399)</u>
Net investment in capital assets	<u>\$ 166,349</u>	<u>\$ 75,789</u>	<u>\$ -</u>	<u>\$ 242,138</u>

B. Depreciation Expense

GASB 34 requires Public School Academies to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets in the entity wide financial statements. Depreciation is not recognized in the fund financial statements and has been noted as a reconciling item in the School's financial statements.

For fiscal year ended June 30, 2005, the net increase in accumulated depreciation was \$ 32,213.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset, less an estimated salvage value.

C. Debt, Principal Payments

The School financed its equipment purchases during 2003-04 by entering into long-term capital leases. In addition, the School financed some operating costs with a long-term note in its first year of operations, 2003-04. A summary of long-term debt service activities is as follows.

	<u>Balance 6/30/2004</u>	<u>New Financings</u>	<u>Principal Payments</u>	<u>Balance 6/30/2005</u>
Leases payable	\$ 121,420	\$ -	\$ 121,420	\$ -
Notes payable	<u>255,000</u>	<u>-</u>	<u>-</u>	<u>255,000</u>
Total long-term obligations	<u>\$ 376,420</u>	<u>\$ -</u>	<u>\$ 121,420</u>	<u>\$ 255,000</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Preliminary Budget for the 2005-06 Fiscal Year was adopted by the Board of Education on June 29, 2005. Few definite factors were known as the budget was being drafted, and others were unknown and needed to be projected with management's best estimates based on perceived interest from the community. Some key factors and estimates used in the 2005-06 budget preparation process include:

- The State Aid foundation had been estimated to be \$6,850 per pupil;
- Enrollment projections of 135 students with the addition of a 10th grade;
- Teaching staff, at a maximum, would provide one teacher for every 25 students;
- Benefit costs would be based on group coverage rates through the Michigan Chamber of Commerce.

Since the School's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to School Districts and Public School Academies. The State periodically holds revenue-estimating conferences to estimate what the State's available resources will be throughout the remainder of its fiscal year. Based on the results of the most recent conference, the State has estimated that funds will be sufficient to fund current appropriations.

CONTACTING THE SCHOOL'S MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the School's finances. If you have questions about this report or need additional information, contact the Administration Office, Ojibwe Charter School, 11507 West Industrial Drive, Brimley, Michigan.

Basic Financial Statements

**Statement of Net Assets
June 30, 2005**

	Governmental Activities
<hr/>	
Assets	
Current Assets	
Cash and cash equivalents	\$ 282,684
Due from other governmental units	158,224
Accounts receivable	19,739
Prepaid expenses	10,250
	<hr/>
Total current assets	470,897
	<hr/>
Noncurrent Assets	
Capital assets	286,537
Less: accumulated depreciation	(44,399)
	<hr/>
Total noncurrent assets	242,138
	<hr/>
Total assets	<u><u>\$ 713,035</u></u>
Liabilities	
Current Liabilities	
Short-term notes payable	\$ 49,210
Accounts payable	14,314
Accrued salaries and withholding	58,673
Deferred revenue	37
Accrued expenses	53,895
Notes payable - due within one year	85,000
	<hr/>
Total current liabilities	261,129
	<hr/>
Noncurrent Liabilities	
Notes payable	170,000
	<hr/>
Total noncurrent liabilities	170,000
	<hr/>
Total liabilities	431,129
	<hr/>
Net Assets	
Invested in capital assets, net of related debt	242,138
Unrestricted	39,768
	<hr/>
Total net assets	281,906
	<hr/>
Total liabilities and net assets	<u><u>\$ 713,035</u></u>

Statement of Activities
Year Ended June 30, 2005

	Program Revenue				Governmental Activities
	Charges for Services	Operating Grants	Capital Grants	Net (Expense) Revenue and Changes in Net Assets	
Expenses					
Functions/Programs					
Governmental Activities:					
Instruction and Instructional Services	\$ 708,275	\$ -	\$ 284,073	\$ 49,689	\$ (374,513)
Support services	566,030	-	-	-	(566,030)
Food services	79,098	14,428	36,764	-	(27,906)
Interest on long-term debt	11,093	-	-	-	(11,093)
Depreciation (Unallocated)	32,213	-	-	-	(32,213)
Total Governmental Activities	<u>\$ 1,396,709</u>	<u>\$ 14,428</u>	<u>\$ 320,837</u>	<u>\$ 49,689</u>	\$ (1,011,755)
General Revenues:					
State of Michigan aid, unrestricted					848,117
Federal Impact aid					647,019
Other miscellaneous					<u>3,260</u>
Total general revenues					<u>1,498,396</u>
Change in Net Assets					486,641
Net assets:					
Beginning of year					<u>(204,735)</u>
End of year					<u>\$ 281,906</u>

Ojibwe Charter School

Balance Sheet Governmental funds June 30, 2005

	General	Food Service	Total Governmental Funds
Assets			
Cash and investments	\$ 268,937	\$ 13,747	\$ 282,684
Due from other governmental units	156,176	2,048	158,224
Due from other funds	15,795	-	15,795
Accounts receivable	19,739	-	19,739
Prepaid expenses	10,250	-	10,250
Total Assets	<u>\$ 470,897</u>	<u>\$ 15,795</u>	<u>\$ 486,692</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	14,314	-	14,314
Accrued salaries and withholdings	58,673	-	58,673
Due to other funds	-	15,795	15,795
Deferred revenue	37	-	37
Accrued expenses	53,895	-	53,895
Short term notes payable	49,210	-	49,210
Total liabilities	<u>176,129</u>	<u>15,795</u>	<u>191,924</u>
Fund Balances			
Unreserved and undesignated	<u>294,768</u>	<u>-</u>	<u>294,768</u>
Total fund balances	<u>294,768</u>	<u>-</u>	<u>294,768</u>
Total liabilities and fund balances	<u>\$ 470,897</u>	<u>\$ 15,795</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and are not reported in the funds.

The cost of the capital assets is	\$ 286,537
Accumulated depreciation is	<u>(44,399)</u>

242,138

Long term liabilities are not due and payable in the current period and are not reported in the funds:

Notes payable	(255,000)
---------------	-----------

Net assets of governmental activities	<u>\$ 281,906</u>
---------------------------------------	-------------------

**Statement of Revenue, Expenditures, and
Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005**

	General	Food Service	Totals
Revenues			
Local sources	\$ 2,660	\$ -	\$ 2,660
State sources	848,117	260	848,377
Federal sources	980,782	36,504	1,017,286
Charges for Services	-	14,428	14,428
Other	599	-	599
	<hr/>	<hr/>	<hr/>
Total Revenues	1,832,158	51,192	1,883,350
	<hr/>	<hr/>	<hr/>
Expenditures			
Instructional Services:			
Elementary	399,003	-	399,003
Middle School	140,396	-	140,396
Special Education	44,210	-	44,210
At Risk	17,690	-	17,690
Other Instruction	275,555	-	275,555
Support Services:			
Pupil services	17,067	-	17,067
Instructional Staff	1,179	-	1,179
Library/Technology	45,291	-	45,291
General Administration	10,128	-	10,128
Executive Administration	254,440	-	254,440
School Administration	143,003	-	143,003
Business	9,618	-	9,618
Operations & Maintenance	125,749	-	125,749
Pupil Transportation	3,476	-	3,476
Central Services	1,924	-	1,924
Other Transactions	14,200	-	14,200
Food Services	-	90,989	90,989
	<hr/>	<hr/>	<hr/>
Total expenditures	1,502,929	90,989	1,593,918
	<hr/>	<hr/>	<hr/>
Excess of Revenues (Expenditures)	329,229	(39,797)	289,432
	<hr/>	<hr/>	<hr/>
Other Financing Sources (Uses)			
Operating transfers in	-	39,797	39,797
Operating transfers out	(39,797)	-	(39,797)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(39,797)	39,797	-
	<hr/>	<hr/>	<hr/>
Net Changes in Fund Balances	289,432	-	289,432
Fund Balances - Beginning of year	5,336	-	5,336
Fund Balances - End of year	<u>\$ 294,768</u>	<u>\$ -</u>	<u>\$ 294,768</u>

**Reconciliation of the Statement of Revenues, Expenditures,
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
Year Ended June 30, 2005**

Net Changes in Fund Balances – Total Governmental Funds \$ 289,432

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures in the
statement of revenues, expenditures and changes in fund balance.

These costs are allocated over their estimated useful lives as
depreciation.

Capital Outlays	\$ 108,002	
Current Depreciation Expense	<u>(32,213)</u>	75,789

Repayments of lease principal is an expenditure in the governmental
funds, but not in the statement of activities (where it reduces
long-term debt)

121,420

Change in Net Assets, Statement of Activities \$ 486,641

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

Charter School – The Public School Academy was organized Pursuant to MCL 380.1 ct seg. This Law allows for the School to be eligible for State Aid and must comply with Michigan School Code provisions. The School operates under a grant agreement with the Board of Regents – Bay Mills Community College. The school was created to provide a learning experience, which includes Ojibwe culture, values, and traditions. The School Board may terminate the operating contract by notification. The College Board of Regents may terminate the operating contract for various failures to comply with laws and regulations, insolvency, bankruptcy, insufficient enrollment, fraud, or if the school operates with a fund balance deficit of two or more fiscal years among other provisions.

The accounting policies of Ojibwe Charter School conform to U.S. generally accepted accounting principles as applicable to Schools. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. Certain requirements of the statement include the following:

- An Administration's Discussion and Analysis section providing an analysis of the School's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all the School's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Public School Academy has implemented the provisions of the Statement. The School also implemented GASB#33, *Accounting and Financial Reporting for Nonexchange Transactions*. The pronouncement defines revenue recognition for nonexchange transactions at the fund and governmental levels.

Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. Based on application of the criteria, the entity does not contain component units. The School also applies Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements.

Note 1 - Summary of Significant Accounting Policies (Continued)**Basic Financial Statements – School-wide Statements**

The Academy's basic financial statements include both school-wide (reporting the School as a whole) and fund financial statements (reporting the School's major fund). The school-wide financial statements categorize primary activities as either governmental or business type. All of the School's activities are classified as governmental activities.

In the school-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts- invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The School first utilizes restricted resources to finance qualifying activities.

The school-wide Statement of Activities reports both the gross and net cost of each of the School's functions. The functions are also supported by general government revenues (grants, certain intergovernmental revenues, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (state sources and federal sources, interest income, etc.)

The School does not allocate indirect costs. In creating the school-wide financial statements, the School has eliminated interfund transactions.

The school-wide focus is on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities.

Basic Financial Statements – Fund Financial Statements

The accounts of the School are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories as follows.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental Funds – Governmental Funds are those funds through which most School functions typically are financed. The acquisition, use, and balances of the School's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund – The General Fund is used to record the general operations of the School pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved operating budget. The School reports its general fund as a major fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Food Service Fund is a Special Revenue Fund that segregates, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School reports the food service fund as a major fund.

Measurement Focus and Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus and the governmental-wide statement uses the economic resources measurement focus.

Accrual

Governmental activities in the school-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that the principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are impact aid, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

Note 1 - Summary of Significant Accounting Policies (Continued)

The School reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the School before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state’s School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The School also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Investments – Investments are recorded at fair value, based on quoted market prices, or estimated fair value.

Inventories – Inventories, if present, are stated at cost, on a first-in, first-out basis, which approximates market value. Inventory recorded in the General Fund consists of centrally warehoused teaching and operating supplies for the School. The Food Services Fund inventory consists of food and paper goods. For all funds, expenditures are recorded at the time of use.

Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Note 1 - Summary of Significant Accounting Policies (Continued)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 20 years

Compensated Absences – The liability for compensated absences reported in the school-wide statements consist of unpaid, accumulated annual and vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. There was no liability at year end.

Long-Term Obligations – In the school-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance cost, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Budgets

The Public School Academy formally adopted General Fund and Special Revenue Fund budgets by function for the fiscal year ended June 30, 2005. Expenditures at this level in excess of amounts budgeted is a violation of Michigan law. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with U.S. generally accepted accounting principles.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

Note 3 - Deposits and Investments

Deposits

The School's deposits are deposited in one financial institution. Deposits are carried at cost.

	<u>Insured</u>	<u>Uninsured</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Deposits per Financial Statements:				
Checking, Savings and				
Certificates of Deposit	\$ 100,000	\$ 269,810	\$ 369,810	\$ 282,684

Investment and Deposit Risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The School's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The School's investment policy does not have specific limits in excess of state law on investment credit risk. The School has no investments for which ratings are required.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. State law does not require and the School does not have a policy for deposit custodial credit risk. As of year end, \$269,810 of the School's bank balance of \$369,810 was exposed to credit risk because it was uninsured and uncollateralized.

Note 3 - Deposits and Investments (Continued)Statutory Authority:

Michigan laws compiled Section 129.91, authorizes the School to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchase through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150. The Schools deposits are in accordance with state statutes.

Note 4 - Capital Assets

A summary of changes in governmental capital assets follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Assets (Depreciated)				
Furniture	\$ 74,033	\$ 52,966	\$ -	\$ 126,999
Computer and Technology	<u>104,502</u>	<u>55,036</u>	<u>-</u>	<u>159,538</u>
Total Assets (Depreciated)	178,535	108,002	-	286,537
Less Accumulated Depreciation	<u>(12,186)</u>	<u>(32,213)</u>	<u>-</u>	<u>(44,399)</u>
Net Capital Assets Depreciated	<u>166,349</u>	<u>75,789</u>	<u>-</u>	<u>242,138</u>
Total Net Capital Assets	<u>\$ 166,349</u>	<u>\$ 75,789</u>	<u>\$ -</u>	<u>\$ 242,138</u>

Depreciation for the fiscal year ended June 30, 2005 amounted to \$32,213. The School determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Note 5 - Management Agreement

The charter school executed a management agreement on August 8, 2003 with Mosaica Education, Inc. (MEI) to provide educational services and certain administrative services for the public school academy. The term of the agreement ends on the last school day of the 2010-2011 school year or upon termination of the charter and may be renewed. The agreement requires compensation to MEI based on an annual fee equivalent to 12.5% of the state, federal, and local school funds. Additionally, the Academy agrees to reimburse MEI for all costs incurred and paid by MEI in providing educational and administrative services to the School. MEI employs all personnel of the school including teachers, the Chief Administrative Officer, and support staff. At year end, the School owed MEI \$120,015 for contract services.

Note 6 - Interfund Receivable and Payables, and Transfers

The School reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

DUE FROM OTHER		DUE TO OTHER FUNDS
		General Fund
	Food Service	<u>\$ 15,795</u>

Interfund Transfers:

TRANSFERS IN		TRANSFERS OUT
		General Fund
	Food Service	<u>\$ 39,797</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 7 - Risk Management

The School is exposed to risks of loss related to property loss, torts, errors and omissions, employee injuries (worker's compensation) as well as medical benefits provided to employees. The School has purchased commercial insurance for claims relating to worker's compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past fiscal year.

Note 8 - Commitments and ContingenciesGrants

The Charter School has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the School at June 30, 2005.

Management Agreement

The Public School Academy is obligated to pay under the terms of the Management Agreement through fiscal 2010-2011. Further information is contained in Note 5.

Note 9 - Due From Other Governmental Units

Amounts due from other governmental units consist of \$158,224 in revenues due from state sources. These revenues represent amounts used for the operation of special programs and grant projects, as well as for the final payment of 2005 state aid, which was not received until after year-end due to the state aid payment schedule.

Note 10 - LeasesOperating Leases

The charter school executed an operating lease with the Bay Mills Indian Community for buildings, parking areas and grounds located in Brimley, Michigan. The lease expires annually on June 30th. It is anticipated that the lease will be renewed in future years. Rent paid during fiscal 2005 was \$60,000 in accordance with the terms of the lease.

Note 11 - School Funding

The Ojibwe Charter School received approximately \$6,700 per student for basic State aid foundation for the 2004-2005 school year for the 123 enrolled students.

Note 12 - Related Party Transactions

The Public School Academy has a purchase service agreement with Mosaica Education, Inc., for management services, teaching services, fringe benefits and other expenses. These transactions included the following items during the period ended June 30, 2005:

Purchased Services:	
Salaries	\$ 600,542
Benefits	79,398
Supplies/Other	26,741
Fees	229,020
Accounts Payable	\$ 120,015
Note Payable	\$ 255,000

Note 13 - Debt Obligations:

The following is a listing of long-term debt obligations at June 30, 2005:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due With in One Year</u>
Note payable to Mosaica Education Inc., 6.5% interest, due in three installments of \$85,000 plus interest, unsecured, due 2008.	<u>\$ 255,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 255,000</u>	<u>\$ 85,000</u>

Schedule of maturities of long-term debt:

2006	\$ 85,000
2007	85,000
2008	<u>85,000</u>
	<u>\$ 255,000</u>

During February 2005, the School executed a Short-Term State Aid Anticipation Note in the amount of \$170,000. The note requires interest to be paid at 5.25% and is due August 2005. The amount unpaid at year end was \$49,210.

Required Supplemental Information

Ojibwe Charter School

Required Supplemental Information Budgetary Comparison Schedule – General Fund Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final	(Budgetary Basis)	(Under)
Revenues:				
Local Sources	\$ 4,500	\$ -	\$ 2,660	\$ 2,660
State Sources	884,500	838,561	848,117	9,556
Federal Sources	511,824	1,012,818	980,782	(32,036)
Other	-	40,000	599	(39,401)
Total Revenues	<u>1,400,824</u>	<u>1,891,379</u>	<u>1,832,158</u>	<u>(59,221)</u>
Expenditures:				
Instructional Services:				
Elementary	324,710	387,060	399,003	(11,943)
Middle School	156,375	139,675	140,396	(721)
Special Education	57,000	43,040	44,210	(1,170)
At Risk	20,000	17,811	17,690	121
Other Instruction	227,065	350,943	275,555	75,388
Support Services:				
Pupil Services	15,000	16,000	17,067	(1,067)
Instructional Staff	24,950	1,000	1,179	(179)
Library/Technology	1,200	42,200	45,291	(3,091)
General Administration	17,000	11,500	10,128	1,372
Executive Administration	189,200	257,200	254,440	2,760
School Administration	137,230	146,330	143,003	3,327
Business	5,250	10,650	9,618	1,032
Operations and Maintenance	153,250	139,250	125,749	13,501
Pupil Transportation	15,000	2,500	3,476	(976)
Central Services	-	1,850	1,924	(74)
Other Transactions	<u>50,000</u>	<u>14,200</u>	<u>14,200</u>	<u>-</u>
Total Expenditures	<u>1,393,230</u>	<u>1,581,209</u>	<u>1,502,929</u>	<u>78,280</u>
Excess of Revenues (Expenditures)	<u>7,594</u>	<u>310,170</u>	<u>329,229</u>	<u>19,059</u>
Other Financing Sources (Uses)				
Operating Transfers out	-	(40,000)	(39,797)	203
Total Other Financing Sources (Uses)	<u>-</u>	<u>(40,000)</u>	<u>(39,797)</u>	<u>203</u>
Net Changes in Fund Balances	<u>\$ 7,594</u>	<u>\$ 270,170</u>	<u>289,432</u>	<u>\$ 19,262</u>
Fund Balances – Beginning of year			<u>5,336</u>	
Fund Balances – End of year			<u>\$ 294,768</u>	

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AND AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

CAO and Board of Education
Ojibwe Charter School
11507 W. Industrial Drive
Brimley, Michigan 49715

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the Ojibwe Charter School, as of and for the year ended June 30, 2005, which collectively comprise Ojibwe Charter School's financial statements and have issued our report thereon, dated August 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the Michigan School Auditing Manual, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ojibwe Charter School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Ojibwe Charter School in a separate letter dated August 11, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 05-2.

This report is intended solely for the information of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 11, 2005



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

CAO and Board of Education
Ojibwe Charter School
11507 W. Industrial Drive
Brimley, Michigan 49715

Compliance

We have audited the compliance of Ojibwe Charter School with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the Ojibwe Charter School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 11, 2005

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2005

Federal Grantor/Pass-through/Program Title	Federal CFDA Number	Project Number	Approved Award/Grant Amount	Prior Year Expenditures	Accrued (Deferred) Revenue June 30, 2004	Current Year Receipts	Current Year Expenditures	Current Year Revenue Recognized	Accrued (Deferred) Revenue June 30, 2005
U. S. DEPARTMENT OF AGRICULTURE									
Passed through State of Michigan Department of Education (MDE):									
Entitlement Commodities	10.550	-	\$ 2,108	\$ -	\$ -	\$ 1,698	\$ 1,698	\$ 1,698	\$ -
Bonus Commodities	10.550	-	827	-	-	827	827	827	-
Subtotal Commodities			<u>2,935</u>	<u>-</u>	<u>-</u>	<u>2,525</u>	<u>2,525</u>	<u>2,525</u>	<u>-</u>
School Breakfast Program	10.553	51970	7,967	609	609	7,967	7,358	7,358	-
National School Lunch Program - All lunches	10.555	051950	3,831	246	246	3,831	3,585	3,585	-
National School Lunch Program - Free and Reduced	10.555	051960	24,468	1,432	1,432	24,468	23,036	23,036	-
Subtotal - Child Nutrition Cluster			<u>36,266</u>	<u>2,287</u>	<u>2,287</u>	<u>36,266</u>	<u>33,979</u>	<u>33,979</u>	<u>-</u>
Total - U. S. Department of Agriculture			<u>39,201</u>	<u>2,287</u>	<u>2,287</u>	<u>38,791</u>	<u>36,504</u>	<u>36,504</u>	<u>-</u>
U.S. DEPARTMENT OF EDUCATION									
Direct Awards:									
Small Rural Achievement Program	84.358	S358A045627	17,068	-	-	-	8,082	8,082	8,082
Impact Aid	84.041	SO41B-2004-7079	317,032	-	-	317,032	317,032	317,032	-
Impact Aid	84.041	SO41B-2005-7079	329,987	-	-	329,987	329,987	329,987	-
Total Direct Awards			<u>664,087</u>	<u>-</u>	<u>-</u>	<u>647,019</u>	<u>655,101</u>	<u>655,101</u>	<u>8,082</u>
Passed through State of Michigan Department of Education (MDE):									
Title I, Part A - Regular	84.010	051530	40,005	20,727	20,727	40,005	19,278	19,278	-
Title V - LEA Allocation	84.298	050250 0405	1,460	980	980	1,460	480	480	-
Technology Literacy Challenge Grant	84.318	054290 0405	1,098	318	318	1,098	780	780	-
Charter Schools Grant	84.282	030610 8P	150,000	150,000	15,000	15,000	-	-	-
Charter Schools Grant	84.282	030610 9C	40,423	-	-	40,423	40,423	40,423	-
Charter Schools Grant	84.282	040610 9C	117,281	-	-	117,281	117,281	117,281	-
Charter Schools Grant	84.282	050610 10C2	150,000	-	-	83,500	83,463	83,463	(37)
Subtotal - Charter Schools Grant			<u>457,704</u>	<u>150,000</u>	<u>15,000</u>	<u>256,204</u>	<u>241,167</u>	<u>241,167</u>	<u>(37)</u>
Title II Part A	84.367	030520 0304	5,118	3,404	3,404	5,118	1,714	1,714	-
Title II Part A	84.367	050520 0405	4,054	-	-	4,054	4,054	4,054	-
Subtotal - Title II Part A			<u>9,172</u>	<u>3,404</u>	<u>3,404</u>	<u>9,172</u>	<u>5,768</u>	<u>5,768</u>	<u>-</u>
Subtotal - MDE			<u>509,439</u>	<u>175,429</u>	<u>40,429</u>	<u>307,939</u>	<u>267,473</u>	<u>267,473</u>	<u>(37)</u>
Passed through Eastern Upper Peninsula Intermediate School District (EUPISD):									
Handicapped Persons Title VI - B									
Flowthrough	84.027	050450-0405	15,708	-	-	15,708	15,708	15,708	-
Freedom to Learn Grant	84.318	054280-2	42,500	-	-	42,500	42,500	42,500	-
Subtotal - EUPISD			<u>58,208</u>	<u>-</u>	<u>-</u>	<u>58,208</u>	<u>58,208</u>	<u>58,208</u>	<u>-</u>
Total - U. S. Department of Education			<u>1,231,734</u>	<u>175,429</u>	<u>40,429</u>	<u>1,013,166</u>	<u>980,782</u>	<u>980,782</u>	<u>8,045</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,270,935</u>	<u>\$ 177,716</u>	<u>\$ 42,716</u>	<u>\$ 1,051,957</u>	<u>\$ 1,017,286</u>	<u>\$ 1,017,286</u>	<u>\$ 8,045</u>

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Ojibwe Charter School and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Oversight Agency

The U.S. Department of Education is the oversight agency of the School District, as this federal agency provided the largest amount of indirect and direct federal funding.

Note C - Food Distribution

Non-monetary assistance is reported in the schedule at the fair value of the commodities received and disbursed. Entitlement donated commodities used during the year amounted to \$1,698, with ending inventory amounting to \$-0-. Bonus donated commodities used during the year amounted to \$827, with ending inventory amounting to \$-0-.

Note D - Reconciliation of Current Receipts to Form R7120 Payments

Payments per Form R7120	\$ 344,205
Pass thru Grants:	
EUPISD	58,208
Direct Awards:	
US Department of Education	647,019
US Department of Agriculture	<u>2,525</u>
	<u>\$ 1,051,957</u>

Section I - Summary of Auditor's Results**Financial Statements**

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of Major Programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
84.041	Impact Aid
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

NONCOMPLIANCE WITH STATE STATUTES

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 05-1

Condition: Our examination of procedures used by the School to adopt and maintain operating budgets for the School's budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The School's 2005 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2005 expenditures exceeded the board's approved budget allocations for some general fund activities.

During the fiscal year ended June 30, 2005, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund as listed on page 26 of the financial statements.

Criteria: The expenditures of funds in excess of appropriations is contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

Recommendation: We recommend that the School's chief administrative officer and personnel responsible for administering the activities of the various funds of the School, develop budgetary control procedures for the General Fund which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

Management's Response—Corrective Action Plan: Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

Section III - Federal Award Findings and Questioned Costs

NONE.

Section IV – Summary Schedule of Prior Audit Findings

NONE.



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

CAO and Board of Education
Ojibwe Charter Schools
Brimley, Michigan

We have audited the basic financial statements of the Ojibwe Charter Schools for the initial period ended June 30, 2005, and have issued our report thereon dated August 11, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Ojibwe Charter Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the Ojibwe Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Ojibwe Charter School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major Federal programs for the purpose of expressing an opinion on the Ojibwe Charter School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Ojibwe Charter School's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Ojibwe Charter Schools are described in Note 1 to the financial statements. We noted no transactions entered into by the Ojibwe Charter Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, of transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Ojibwe Charter Schools that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We did not propose any adjustments for the fiscal year.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the independent auditors' report. We are pleased to report that no such disagreement arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Ojibwe Charter School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Comments and Recommendations

The following is a summary of our observations with suggestions for improvements and other informational items we believe should be brought to your attention.

Prior Comments:

BOARD MINUTES – During our review of Board Meeting Minutes, it was noted that some board minutes were not signed by the CAO or the President. All board minutes should be signed to provide an authorized permanent record of board actions. Additionally, due to the limited number of staff, a claims listing of paid bills should be provided to the board and approved.

Status: Most board minutes are signed, however claims are not approved.

FOOD SERVICE – The accounts receivable amount for student and teacher lunches is not recorded, however at a minimum a listing should be maintained. Additionally, all lunch collections should be performed by year end or the Board should authorize the direct charge off of these accounts.

Status: No change.

CAPITALIZATION POLICY – GASB 34 requires that the Board adopt a capitalization threshold for depreciation of capital assets and infrastructure. The Board currently capitalizes assets above \$1,500; however, this amount should be authorized by Board Policy.

Status: No change.

EXCESS EXPENDITURES - Public Act 621 of 1978 requires units of government to appropriate funds prior to actual expenditure of funds. The Board exceeded two functional areas in violation of the act. Budgets should be amended prior to year end to comply with the law.

Status: No change.

INVOICE AUTHORIZATION – During our review of invoices, it appeared that all disbursements reviewed indicated adequate support; however, proof of authorization of payment was not indicated by initial or signature on all items. Invoice payment authorization should be indicated on all invoices.

Status: Corrected.

FORM I-9 – The employee eligibility verification Form I-9 was not signed by an authorized individual nor was any proof of citizenship documents examined or noted. The Immigration and Naturalization Service requires that the form be signed and documented for all employees.

Status: Corrected.

CERTIFICATIONS – Three certifications for teaching staff could not be located. All teaching certificates should be maintained on file.

Status: Corrected.

AGENCY FUND – The school maintains an agency fund for the parent-teacher organization that is not recorded on the general ledger but is under school's federal identification number. The PTO should obtain its own federal identification number or report the agency in the general ledger.

Status: No change.

Current Comment:

FOOD & SUPPLY INVENTORY – The Board should authorize and record, at least annually, inventory of food and school supplies to properly reflect items on hand. Physical counts and price extensions should be performed.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any assistance in implementing the above recommendations, please contact us.

The information is intended solely for the use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 11, 2005